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THE INSURANCE PROBLEM

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Transportation for Senior Citizens
and Handicapped

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Transportation for Senior Citizens and Handicapped Persons

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A very faint, large watermark-like image of a classical building with four columns and a triangular pediment occupies the background of the page.

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THE INSURANCE PROBLEM

Transportation for Senior Citizens and Handicapped Persons

Insurance is a major problem in Montana for an increasing number of organizations and agencies that operate special transportation vans for elderly and handicapped persons. The operators are having difficulties finding companies willing to provide them with insurance. Second, premiums are high. And third, restrictions may be imposed by the insurance companies as a condition of coverage. The purpose of this analysis is to provide information to special transit operators and the public concerning the insurance problem and to evaluate alternatives available at the state level that may offer some relief.

Introduction

Special transportation services for the elderly and handicapped have developed in Montana during the past few years in response to growing needs. The demand for such services was created by several factors, including:

- a decline in the number of taxi and intercity bus operations,
- increasing numbers of elderly,
- changes in the family structure,
- a state deinstitutionalization policy,
- changes in land use patterns that necessitate automobile travel, and
- recognition by various agencies of the importance of

mobility in the lives of elderly and handicapped persons.

Ours is a highly mobile society and without special transportation services many of our elderly and handicapped are truly isolated from the rest of their community, to the extent that they cannot take care of their essential medical, shopping and business needs.

Local elected officials, social service agencies, and charitable organizations responded to the growing needs, and in doing so they created a great variety of special elderly and handicapped transportation systems. Several of these operations are volunteer systems consisting of drivers that use their private vehicles. There are services provided through contractual arrangements with private bus companies and unified social service operations. Many organizations are operating vans acquired through federal programs, local service club projects, or special arrangements with local automobile dealers. There is some type of special transportation operation in 46 of Montana's 56 counties. More than 125 organization and agency vans are being used for elderly and handicapped persons, in addition to numerous private cars, vans, and buses. Transportation is now one of the most recognized needs of our elderly and handicapped population and demands for more services and equipment can be expected to continue for the next few years.

The Problems

Insurance problems appeared on the horizon with the inception of

special elderly and handicapped transportation operations, and are becoming more prevalent. Surveys and discussions with special transportation directors have revealed that the major insurance difficulties are availability, cost, and restrictions. Cancellations have also occurred, however, incidences of this appear to be rare.

Aspects of the Problems

Availability

The first difficulty that a director may encounter when insurance shopping is simply finding someone who is willing to sell them insurance. The director may need to contact a number of agents before finding a company that will provide coverage. The director may also find that a company will write a policy, but only for limited coverage. Some organizations do not have medical or comprehensive coverage for this reason.

Cost

When an organization finds a company that will sell it insurance, it may find the cost very high. There is oftentimes a very large variation in costs between communities or different operations within the same community even though coverage, vans, area risk, and nature of the operations may be virtually the same. As a result, insurance costs for vans being used in special transportation operations range from \$350 to \$1,500.

Very large, inexplicable rate increases have occurred when the insured has not been involved in an accident, acquired a new van, or made any changes of substance in their operations. In some cases, rates have doubled and even tripled in one year for no apparent reason.

Restrictions

The insurance company may impose restrictions as a condition to coverage. Restrictions have included:

- Prohibition on the use of volunteer drivers or drivers over 65. (Although this age group may represent the best source of responsible drivers for the operation.)
- Restriction on riders. All riders on the vans must be clients of the organization that operates the vehicle. Therefore, there are senior citizens or handicapped persons who cannot get rides, even though there is a special van available, because they are not clients of the organization that has the vehicle.
- Restrictions on the area of service. Some senior citizen organizations have been required to accept insurance that limits the use of the vehicle to a single county. Consequently the vehicle cannot be used to take clients to medical specialists or senior centers which are otherwise available except for the existence of a county boundary.

Causes

The insurance problems are generally caused by two factors: company wariness and subjective classification.

Company Wariness

Insurance companies look very cautiously at these type of operations. The reasons most frequently cited by the insurers are:

- the passengers are fragile, so medical claims can be expected to be high,
- exposure may be high so the chances of an accident are increased, and
- driver requirements, such as age restrictions, chauffeur license, and first aid training, might not be met.

Subjective Classification

Special elderly and handicapped transportation operations are being related to the insurance industry's rating system through a subjective process. Americans have traditionally traveled via private cars, taxis, city buses, school buses, and commercial lines (Greyhound, Trailway, etc.). The insurance industry's policies and rating system are based on these traditional forms of travel. When a company encounters a situation that is not provided for in the existing rating structure, it relies on rating by analogy. A couple of analogies can reasonably be made for special elderly and handicapped transportation operations, however; and if an insurance

company decides that a special system does not equate with any of the standard classifications, it will calculate the rate on the basis of the "not otherwise classified (NOC)" classification. (See Appendix A for ISO standard classification definitions.) This appears to be the major reason for such dramatically different rates for very similar special transportation systems in the state. To illustrate, the following example shows calculations for school bus and van pool analogies, and the NOC classification.

Assumptions

Activity Center, Inc. is a private non-profit corporation that operates a work-training center for persons with developmental disabilities. It seeks to insure its 12-passenger Dodge van, purchased in 1977, for \$9,500. The van is generally operated within a 50-mile radius of the activity center, and the risk rating for this area is relatively low (005).

The van is used to transport ACI's clients as follows:

Weekdays Morning Run - Picks up clients at their homes and takes them to the activity center.

Enroute it stops at the school to drop off clients that attend special education classes.

Mid-Morning Run - Goes to the public school to pick up the clients that were in special education classes and takes them to the activity center.

Early Afternoon Run - Takes clients from the activity center to various locations in the community for life skill training activities (i.e. - training to adapt clients to the community and the community to the clients)

Afternoon Run - Picks up clients wherever they are in the community and returns them to their homes.

Evenings and Weekends - Occasional trips for special activities.

The School Bus Analogy

The insurance company decides that ACI's van operation is, for all practical purposes, like a school bus that transports students to and from school and ferries them around during the day for vocational and other special training. It therefore calculates the premium using the school bus rate schedule as follows:

<u>Coverage</u>	<u>Rating Factor</u>	<u>Basic Premium</u>	<u>Rate</u>
\$300,000 Bodily Injury and Property Damage	1.10 (Rating factor for school bus not owned by a public entity)	x \$163 (Basic school bus premium)	= \$179.30
\$ 5,000 Medical Payment		\$ 21 (Basic school bus premium)	\$ 21.00

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<u>Coverage</u>	<u>Rating Factor</u>		<u>Basic Premium</u>	<u>Rate</u>
\$ 100 Deductible Comprehensive	.40 (Rating factor for school bus not owned by a public entity)	x	\$101 (Basic premium all public vehicles)	= \$ 40.40
\$ 500 Deductible Collision	.40 (Rating factor for school bus not owned by a public entity)	x	\$334 (Basic premium all public vehicles)	= \$120.40
Uninsured Motorist			\$ 12	\$ 12.00
Bodily Injury Liability			(Basic premium all vehicles)	

			TOTAL PREMIUM	\$373.10

The Van Pool Analogy

The insurance company considers the sheltered workshop aspects of ACI's operations and decides that the van should be rated on the van pool schedule, because ACI is an employer providing transportation for its employees. The premium calculations thus are:

<u>Coverage</u>	<u>Rating Factor</u>		<u>Basic Premium</u>	<u>Rate</u>
\$300,000 Bodily	1.05 (Rating factor for employer-operated van pool)	x	\$ 70 (Basic van pool premium)	= \$ 73.50

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<u>Coverage</u>	<u>Rating Factor</u>	<u>Basic Premium</u>	<u>Rate</u>
\$ 5,000 Medical Payment		\$ 14 (Basic van pool premium)	\$ 14.00
\$ 100 Deductible Comprehensive	1.00 (Rating factor for employer- operated van pool)	x \$101 (Basic premium all public vehicles)	= \$101.00
\$ 500 Deductible Collision	1.00 (Rating factor for employer- operated van pool)	x \$334 (Basic premium all public vehicles)	= \$334.00
Uninsured Motorist Bodily Injury Liability		\$ 12 (Basic premium all vehicles)	\$ 12.00
		TOTAL PREMIUM	\$552.50

The "Not Otherwise Classified" (NOC) Analogy

The insurance company feels that ACI's operation does not conform to either a school or business in the traditional sense, and decides to rate the van according to the NOC schedule. The premium calculations thus are:

<u>Coverage</u>	<u>Rating Factor</u>	<u>Basic Premium</u>	<u>Rate</u>
\$300,000	.50	x \$1,801	= \$ 900.50
Bodily Injury and Property Damage	(NOC Rating Factor)	(Basic NOC premium)	

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<u>Coverage</u>	<u>Rating Factor</u>	<u>Basic Premium</u>	<u>Rate</u>
\$ 5,000 Medical Payment		\$155	\$155.00
\$ 100 Deductible Comprehensive	1.00 (NOC Rating Factor)	x \$101 (Basic premium all public vehicles)	= \$101.00
\$ 500 Deductible Collision	1.00 (NOC Rating Factor)	x \$334 (Basic premium all public vehicles)	= \$334.00
Uninsured Motorist Bodily Injury Liability		\$ 12 (Basic premium all vehicles)	\$ 12.00
		TOTAL PREMIUM	\$1,502.50

Insurance premiums in this example have a range of approximately \$1,000. This is typical of the variation actually found in the state.

The \$1,000 variation is due primarily to bodily injury and property damage schedule difference for the various classes. Once a vehicle is classified as NOC it is subject to the same basic premium schedule for bodily injury and property damage coverage as Greyhound, city, and charter buses, even though it may be in no way similar to such vehicles. The rates in the "other bus" schedule are illustrated in the following table.

Basic Premiums - Non Fleet

(Territory 005)

Bodily Injury and Property Damage

Coverage	School Buses	Van Pools	Other Buses
\$ 100,000	\$ 140	\$ 60	\$ 1,552
\$ 250,000	\$ 158	\$ 68	\$ 1,754
\$ 300,000	\$ 163	\$ 70	\$ 1,801
\$ 350,000	\$ 167	\$ 72	\$ 1,849
\$ 500,000	\$ 178	\$ 76	\$ 1,967
\$1,000,000	\$ 207	\$ 89	\$ 2,298

Toward a Solution

Special transportation directors have a few avenues open to them and some alternatives have been suggested for improving the insurance situation. These are:

Classification/Rate Appeals

Some special transportation operations may be incorrectly classified and paying higher rates than they should. If this situation exists it is in the organization's or agency's best interest to appeal their classification. The agency or organization may seek the assistance of the State Commissioner of Insurance in making such an

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appeal. The form used in the inquiry/complaint process is shown in Appendix B.

This process is also appropriate if a policy has been cancelled without notice or some other legal problem exists.

State Agency Group Insurance

State agency group insurance has been frequently suggested as an alternative to individual plans, but it has some fatal drawbacks. State group insurance is only feasible if the state agencies that administer the federal programs, through which most special elderly and handicapped vehicles are purchased, retain the vehicle titles and regulate their operation. Retaining titles and regulating operations smack of government intervention and most special transportation directors would undoubtedly prefer their insurance problems to this alternative. In addition, this approach does not respond to those organizations and agencies that acquire their vehicles through local fund drives or arrangements with automobile dealers.

Shirt-tailing County Policies

Organizations and agencies tend to realize a slight savings if the county government includes the vehicle in its county policy. When county commissioners are willing to include the vehicle in their package they not only give the organization or agency the benefit of any competitive bidding they can generate, but also save the

operation director a lot of time and trouble in shopping for an separate policy. This option is limited to those special transportation systems operated by county agencies, such as County Councils on Aging, because the vehicle must be owned by the county. Most special transportation operations that can realize an advantage by including their vehicle in the county policy are already doing so.

State Organization Group Insurance

Some state organizations, such as the Association for Independent Disabilities Services or Montana Senior Citizens Association, Inc., may be able to develop a group policy for their members. If an organization wants to put together a package it must develop bid specifications that (1) satisfy the majority of its members and (2) create enough interest on the part of the insurance companies to generate competition. An example of bid specifications is shown in Appendix C.

Self-Insurance

Self-insurance, or even an assumed liability risk plan, is not feasible for special transportation operations. A \$5,000 assumed liability risk could strike an individual special operation an overwhelming blow if an accident occurred since most such operations have annual budgets of under \$10,000 per year.

Self-insuring for collision, specified perils, or comprehensive

coverage may be feasible if combined with a group policy approach. The vehicles are stationed throughout the state, so the chances of a total fleet catastrophe are slim. The practicality of this approach would depend a great deal on the actual character of the fleet that was put together.

Risk Management

Directors that adopt effective risk management programs, such as driver training, regular vehicle inspection, etc., should realize reduced rates. Increased risk management requirements are expected to come with improved rating systems. While many directors may welcome an effective risk management program in return for lower rates, there will undoubtedly be concern that such requirements will create additional problems.

Changes in the Insurance Industry

While some of the above alternatives may improve the insurance situation, they do not get to the root of the problems. Changes must occur within the insurance industry itself if the problem is to be fully resolved. Specifically the industry needs to:

- develop statistics on special transportation's actual risk experience; and
- adopt a rate structure for special elderly and handicapped

transportation operations based on the actual risk experience data.

There is currently a national project in progress that has as one of its purposes the accomplishment of this work. The study is being completed by the University of Tennessee in cooperation with the insurance industry, and under contract with the United States Departments of Transportation and Health, Education and Welfare. Several special elderly and handicapped transportation operations in Montana have cooperated in this effort by responding to the University of Tennessee's data collection survey. Results from this project are not expected until after the beginning of 1979.

The University of Tennessee project is particularly important to states like Montana. Montana's share of the insurance market is extremely small because of our low population. Therefore, it is not possible to develop sufficient risk experience data at the state level to bring about any of the rating changes that are needed.

Recommendations

Two options already mentioned that may help directors in some cases are classification appeal and shirt-tailing county policies. Additional recommendations that may be useful are as follows:

1. Concentrate on agents who represent public automobile carrier companies.

There are a number of different types of automobile insurance -- private passenger, corporation automobile, public automobile, etc. Some special elderly and handicapped vans may qualify for private livery insurance, but the insurance industry generally views such vehicles as public automobiles. While there are over 400 insurance companies in Montana only a small number of them handle public automobile insurance.

If directors find that their vehicles are being considered public automobiles and having difficulties finding an agent or company, they should check with local school bus operators or districts for referrals. School buses are public automobiles. If an agency represents a company that insures school buses, it should be able to provide insurance for a special elderly and handicapped van.

2. Check the deductible options and consider the cost of added coverage.

\$50 deductible comprehensive coverage cost \$108 per year for an \$8,000 to \$10,000 van. Full comprehensive coverage for the same vehicle cost \$155; that is \$47 more than the \$50 deductible option. Full comprehensive coverage is a poor insurance buy in this example because it costs \$47 for \$50 worth of added insurance.

Directors should not opt for high deductibles that could jeopardize their operations in the event of an accident. However, if it is a

question of paying \$47 for insurance now or taking a chance on paying \$50 for vehicle repair later, it is worth taking the chance.

3. Weigh bodily injury and property damage liability options with care.

Bodily injury and property damage liability coverage protects the organization in case of an accident where their driver is at fault. If the driver in a second vehicle is at fault, that person's insurance covers.

Organizations face the problem of assessing their situations and determining how much liability coverage is enough. \$25,000 liability coverage is probably not adequate, but does the organization really need \$1,000,000 coverage? The individual needs of organizations are expected to differ because the nature of these organizations vary.

4. Comparative shopping pays.

The company that offered the best insurance buy last year, may not be offering the best buy this year. If a company's claim experience deviates substantially from the norm it will probably adjust its rates accordingly. Thus a company that had a high claim experience last year may be charging relatively high rates this year, and those with low claim experience will probably be offering the better buys available.

Do not confuse agents with companies when comparative shopping. Agents represent companies, and there may be several agents who represent the same company in a given area. All of them can offer the same insurance at the same price. Many agents represent several different companies. They will compare prices for the companies they represent to obtain the best buy for their client. Directors that want to explore the market can start by checking the Yellow Pages for company ads that list the names of the companies' local agents.

Conclusion

High insurance rates are costing the taxpayer money and the elderly and handicapped in other services. Most special transportation operations are supported to some extent by public funds. The elderly and handicapped are directly effected by the high rates because every dollar an agency spends on insurance costs means one dollar less for nutrition program, blood pressure clinics, and other similar services.

While this report does not offer any simple answers to the insurance problems, it is hoped that it will reduce the prevailing confusion and provide directors with helpful ideas. The Department of Community Affairs' Planning Division will continue to monitor the progress of the University of Tennessee's project and other pertinent efforts that come to our attention. We invite your comments and would particularly appreciate any information that would aid special transportation operations.

School bus. An automobile that carries students or other persons to and from school, or in any school activity including games, outings, and similar school trips.

- (1) Separate codes and rating factors apply to:
 - (a) School buses owned by political subdivisions or school districts.
 - (b) All others including independent contractors, private schools and church owned buses.
- (2) A policy covering a school bus may be written on an annual term for liability and collision coverages with premium prorated to reflect the actual school term. However, do not give credit for Saturdays, Sundays or holidays or for any other periods of lay-up during the school term.
- (3) If a publicly owned school bus is used for special trips unrelated to school activities, refer to company for the additional charge.

Van pools. An automobile of the station wagon, van, truck or bus type used to provide prearranged commuter transportation for employees to and from work and is not otherwise used to transport passengers for a charge.

- (1) Employer furnished transportation. Transportation is held out by the employer as an inducement to employment, a condition of employment or is incident to employment.
 - (a) Employer owned automobiles. Automobiles owned, or leased for one year or more, by an employer and used to provide transportation only for his employees.
 - (b) Employee owned automobiles. Automobiles owned, or leased for one year or more, by an individual employee and used to provide transportation only for fellow employees of his employer.
- (2) All other. Automobiles which do not meet the eligibility requirements of paragraph (1) above.

Transportation of employees--other than van pools. Automobiles of any type used to transport employees other than in van pools.

- (1) Automobiles owned, or leased for one year or more, by an employer and used to transport only his own employees.
 - (a) Private passenger automobiles. Charge rates shown on the state rate sheets for private passenger types. (Class Code 5851)
 - (b) All other automobiles. Rate as a van pool - all other. (Class Code 5851)
- (2) Automobiles owned, or leased for one year or more, by

a person or organization who is in the business of transporting employees of one or more employers. Rate as public automobile not otherwise classified.

Public automobile not otherwise classified. This classification includes, but is not limited to automobiles such as country club buses, cemetery buses and real estate development buses.

E. V. "SONNY" OMHOLT
STATE AUDITOR
HELENA, MONTANA 59601

INSURANCE INQUIRY/COMPLAINT FORM

In response to your recent request for assistance we are sending our Insurance Report Form. Please complete this form and mail to: E. V. "SONNY" OMHOLT, STATE AUDITOR & EX OFFICIO COMMISSIONER OF INSURANCE, State Capitol, Helena, Montana 59601. It often takes several weeks for the Department to complete the review and take appropriate action. You will hear from a Claims Examiner in writing as soon as the review is completed.

Your Name _____ Phone No. _____

Address _____
(Street) (City) (zip Code) (County)

Group, Employer or Other Parties:

Name _____

Address _____
(Street) (City) (zip Code) (County)

Insurance Company's Name _____

Policy No. _____ Claim No. _____

Kind of Policy: Auto Life Health Property Other _____

Agent's Name _____ Date of Loss _____

Please indicate which of the following is applicable:

My complaint is against: COMPANY AGENT ADJUSTER

- The company has unfairly rejected my claim or has not paid the full benefits to which I am entitled.
- The company has delayed processing my claim and I am unable to obtain a response from them concerning it.
- The company has not refunded premium moneys that are due me.
- I believe the company's action of cancellation or non-renewal of my policy is not justified.
- Other _____

Do you have an attorney handling this for you? _____ If not, briefly and in your own words, describe your problem. If more space is needed, please add additional sheets. Enclose copies of papers and other correspondence relative to this problem. A copy of this form may be forwarded to the insurance company involved.

Signature _____

Date _____

Additional Comments on Reverse

* * * * * * * * * * * * * * *
* EXAMPLE *
* *
* REQUEST FOR PROPOSAL *
* * * * * * * * * * * * * * *

Name of Organization -- Automobile Insurance

The proposal shall be to insure all automobiles, vans, and buses as listed, operated by members of name of organization. The insurance shall be based upon the list and classification of automobiles, vans and buses as furnished by name of organization, and shall include in addition to vehicles owned by its members, similar type vehicles which are donated, leased or otherwise acquired by the members and operated as owned vehicles.

The proposal shall be based on a one (1) year period, effective date to expire date. The policy may be renewed for an additional year if mutually agreeable. Name of organization must be furnished with a written notice of at least sixty (60) days prior to the effective date of any cancellation by the company.

The policy shall include the following coverage:

1. Bodily Injury and Property Damage Liability Insurance for \$500,000 per occurrence. (An alternative proposal for limits of \$300,000 per occurrence is requested. Name of organization will decide which limits to accept.)

2. Medical Payment Insurance for \$5,000 per person. Medical Payment Insurance does not apply to any employee of a member, within the scope of employment covered by Workmens' Compensation.
3. \$100 Deductible Comprehensive Insurance shall apply to all vehicles, less than 5 years old, for Actual Cash Value.
4. \$500 Deductible Collision Insurance shall apply to all vehicles, less than 5 years old, for Actual Cash Value.

The policy must include the following provisions either in policy form or by endorsement:

1. The Automobile Fleet Plan Endorsement providing automatic coverage on newly acquired units.
2. Pro rata premium for additions and deletions.
3. A unit rate based on actual mileage and passengers carried may be charged, with the actual premium to be determined by audit.

VEHICLE LIST

Territory	Member, Location	Vehicle	Classification
001	XYZ Activities, Inc. Billings, MT	1977 Dodge Maxi Wagon 1278-01-6	Van Pool

Etc.

Etc.

